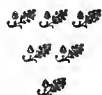


ADDRESS
TO THE
Alumni Association
of the
Massachusetts Institute of Technology
by
HOWARD ELLIOTT
Chairman of the Board of Directors
and President of
THE NEW YORK, NEW HAVEN AND HARTFORD
RAILROAD COMPANY.



SOMERSET HOTEL, BOSTON, MASS.
JANUARY 9, 1915.



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It is a privilege to me to be allowed to speak before the graduates of the Institute of Technology because I am a graduate of the Lawrence Scientific School of Harvard University. In common with other graduates of that school, I have some sentimental regret at the passing away of the old school, but I believe that the best results for the country will be accomplished in training young men for their life work under the present plan of co-operation between Harvard and the Institute.

Some Retrospection. Since the Civil War a very large amount of work has been done in this country in developing the natural resources and in creating all kinds of agencies for advancing the welfare of the public—commercial, financial, manufacturing, educational, charitable, and, last but not least, transportation, in which it happens I have spent thirty-four years of my life.

In doing this work mistakes have been made, methods have been tried and discarded; principles of business and management that were fitted for one set of conditions have been found to be wrong for another set; and there has been some loss and waste in the great constructive work of the last fifty years.

But, on the whole, a marvelous piece of work has been done, and as a result our people have the best living conditions in the world.

Men who have graduated from institutions like Harvard and the Institute have had a share in bringing about these results, but due credit must always be given to the many men who, without the advantages of early education, have by sheer native ability, hard common sense, force and industry done great work for the United States.

New Problems. Now we are entering a different period in our history, requiring just as much work as before, but, perhaps, a different kind of work and requiring greater care than ever before. The exploitation and use of the natural resources in a rough and crude way is over. The projection of great railroad systems is past. Now we need the greatest care in conserving our natural resources, in improving our agricultural practices, in adding to and adopting better methods

in our great railroad systems and public service corporations, in adopting constantly improving standards in finance and commerce, and, more than all, in managing the great business of government so that it will be efficient, economical, fair, and helpful to all forms of human industry.

In doing all of the work of the last fifty years sometimes not enough attention has been paid to simple arithmetic and the ordinary laws of nature and economics. Failure to take into account some of the great economic forces has caused trouble, just as the failure to take into account natural forces causes a bridge to fall or an explosion to occur.

Trained Men Needed. There is a great field for the man who is fortunate enough to receive a technical training in the Institute, broadened, at the same time, by the influence of the liberal spirit of Harvard. In dealing with the problems of the next twenty-five years the trained mind and the expert in every line will be needed to produce efficiency and economy; but, at the same time, the technical expert must not lose sight of the broader questions of business as a whole and of the relations of the Government to all business.

So we need the technical man and the hard-headed business man and the trained economist to do the work of the world, to produce a sane public opinion, and to furnish public servants of good sense and good experience, because the Government is touching our daily lives in so many places. I believe men of this type will be turned out more and more from our great universities and that the combination of the Institute and Harvard will produce men with minds well trained and character well balanced who will make the very best citizens.

The Railroad's Dilemma. Considerable advance has been made in efficiency, in manufacturing, in finance, in education, some in transportation, and there is very much more still to be accomplished. Consider the business I am in. Our railroads are the most efficient in the world and furnish more and better service and at lower prices than can be obtained in any other

country. They are not as good as they should be and can be, but they are owned and managed by human beings who are no better or no worse as a whole than the general public they are trying to serve. They have made, and will continue to make, mistakes, just as people do in all other kinds of business, as well as in government. One reason why they are not as good as they ought to be is that legislators, State and National, in trying to correct mistakes which owners and managers have made, have allowed the sixpence of errors to blind them to the dollars of wonderful work already done and being done every day. They have, in their efforts to correct abuses and mistakes which were gradually correcting themselves, created conditions which to-day make it almost impossible for the owners and managers of railroads to go ahead and do the very things which the public wants them to do and that the owners and managers want to do.

An Illustration. Suppose, for example, that a number of men start a drayage business here in Boston and begin the delivery of coal, lumber, merchandise and other commodities from docks, railroad yards, and storehouses. They buy wagons, horses and trucks, and equip themselves to handle business promptly and satisfactorily with the hope of making not only a living, but some profit. They must handle their business in all kinds of weather, on slippery streets, in congested places, and up and down hills. After they have been in business for a time a number of men appear and begin to tell the owners and managers how to run the business. None of these men has any financial interest in the business, but one man says :

“I have been looking at your wagons and their beds are not the right distance from the ground, and you must change that. Also, the buckles and harnesses are not of the proper type and the steps of your wagons are wrong and you must fix these.”

Another man says :

“The lanterns you give to your teamsters are not the right kind, and the engines on your motor trucks are wrong and you must get new ones.”

Another man says:

“I see you are hauling milk and perishable goods in your wagons, and in such cases you must hurry and move at least 10 miles an hour and carry one extra man.”

While another says:

“When your teams are in our part of the city they must not move more than 4 miles an hour, and you must stop at every street crossing.”

Still another says:

“The City Council has decided you must reduce all your charges 20 per cent. and that you must haul all city packages for a nominal charge, even if it does force you to buy new wagons and trucks.”

Another says:

“I represent the State and we have decided that your sheds and barns are not the right kind and you must tear them down and build new ones.”

Meantime, a committee of employees has come forward and demanded 25 per cent. increase in wages and shorter hours. At the same time the city, the county, and the State require the owners to make most elaborate and detailed statements about every item of the business, imposing a wholly unnecessary charge upon it. As a result of all this, the owners and managers are rather confused and somewhat discouraged at the interference and their efforts to give good service are largely nullified so that they are tempted to say as the fiddler did in the mining camp, “Please don’t shoot for I am doing the best I can.”

**A National
Menace.**

This sounds rather extreme when applied locally to a drayage company, but this system is in operation in the United States to-day against the railroads, only to a greater degree because the Federal, State, and City governments are making laws and rules and regulations about equipment, and lights, and boilers, and the speed of trains, and rates, and the kind of buildings, hours of service and unneces-

sary men on trains, and, at the same time, the employees, naturally, are anxious for more money. The United States, under the parcel post law, is asking the railroads to carry a very large amount of merchandise and practically pays nothing for it. It is a most serious matter for the country that the transportation industry has come so nearly to a standstill in its development because the next time there is a business revival, which is sure to come, the transportation companies may not be ready for it because they have no margin for needed improvements.

The Railroad Industry. Consider for a moment what the railroad industry means to this country.

1,848,883 employees to whom it pays \$1,390,025,286 in wages.

Forty-four cents of every dollar spent by the railroads is paid to labor.

9,244,015 persons dependent upon it for a living, if families of employees be counted.

1,000,000 workers in plants furnishing railroad material and supplies; 5,000,000 counting their families. About 25 cents of each dollar received are paid out for materials and supplies, the bulk of which goes into the pay envelopes of those who produce them.

1,500,000 holders of stocks and bonds, owners of this industry, representing at least 6,000,000 persons in the United States whom it thus helps to support. Railway bonds constitute 49 per cent. of all bonds held by savings banks.

20,000,000 persons, over one-fifth of the population, are directly or indirectly interested in the financial results of this industry.

\$2,164,851,210 paid out by this industry in 1913 for expenses of all kinds, equivalent to \$23.33 for every man, woman and child in the United States. Railroad income flows back to the people.

\$129,191,880 paid in taxes in 1913 for the support of National, State and local government, equivalent to \$1.43 for every inhabitant of the United States. The railroads are the country's largest taxpayers.

Result of railroad operations for the fiscal year ending

June 30, 1914, compared with the previous fiscal year showed:

Gross earnings.....	Decreased, \$44,000,000.
Expenses and Taxes.....	Increased, 76,000,000
Net Operating Income...	Decreased, 120,000,000
Taxes alone.....	Increased, 12,610,402

Average dividend paid in 1913, 4.28 per cent., and of total capital stock one-third paid no dividend and 10 per cent. of total funded debt paid no interest.

The American railroads perform a greater service per mile of line at a cheaper rate and pay higher wages than any other railroads in the world.

Railroads and the Savings Banks. The Comptroller of the Currency says, in his annual report, that there are 11,000,000 depositors in savings banks with \$5,000,000,000 to their credit. Much of this large sum is invested by the banks in railroad securities so that those 11,000,000 people have a very vital interest in having the railroad industry sound and profitable.

The conservation of this industry is vital to this country, and owners and managers should be helped rather than hindered in their earnest efforts to make it more useful and efficient.

Legislation That Cripples. It cannot be denied that some of the difficulties in which this great industry now flounders are due to errors and misconceptions in the past as to the duty of the public service corporations to those they were trying to serve. There is, however, much of good and high purpose in the management of railroads, and some of the errors and mistakes which are now condemned were made through lack of experience in what is a relatively new business, considering the life of the country, and in an earnest effort to accomplish results which have added to the comfort and convenience of all the people. It should also be remembered that practices now condemned in business life were considered proper by individuals and the Government itself only a few years ago. These errors in management and the impatience of the public have helped to bring about the great mass of confusing, drastic, conflicting and crippling legislation that we have to-day; but, if the private owners

and managers of these properties went too far in one direction, the regulatory power of the Government and the passion for trying to correct failures incident to humanity by legislation are now going too far in another. I believe the railroad managements of the country realize that they must strive for the highest honesty, the greatest economy, efficiency in managing the properties and recognize the fact that the character of public regulation in the future will depend somewhat upon the attitude of the railroad owners and managers in dealing with the public.

The people, however, should remember that in exercising their great power through their Government to punish the railroads for errors and failures they may go too far and hurt those who were not responsible in any way for these errors and cripple the very institution that should be well equipped to serve all the people. It should not be forgotten, in considering the extent to which Government control and regulation have gone, that railroad property, after all, is still private property, and no power can justly require the use of the property without a reasonable reward.

The Supreme Court on Regulation.	The Supreme Court has settled this principle, and everyone interested should consider the words of Chief Justice Waite:
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“This power to regulate rates is not a power to destroy, and limitation is not equivalent to confiscation under pretense of regulating fares and rates. The State cannot require a railroad corporation to carry persons or property without reward. Neither can it do that which in law amounts to taking of private property, either to be used without just compensation or without due process of law.”

This language follows the principles laid down in the Fifth Amendment to the Constitution:

“Nor shall private property be taken for public use without just compensation.”

The Fourteenth Amendment to the Constitution says:

“Nor shall any State deprive any person of life, liberty, or property without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.”

These amendments to the Constitution and the fact that public service corporations are private property and entitled to the protection of the Constitution and the fundamental laws of the land are sometimes lost sight of in the public discussion of these questions and in the creation of the various regulatory statutes that are passed by National and State legislatures. If men have had the courage, ability and foresight to invest in a railroad or a public service business which turns out to be profitable, it is not fair to transfer the profit to others by means of a legislative act.

Railway Under the Fifth Amendment to the Consti-
Mail Pay. tution, Congress should not make, directly or indirectly, through a Commission, rates that fail to make a fair return on the full value of the property taken for public use, and under the Fourteenth Amendment States should not make confiscatory rates. Surely, the present method of paying the railroads for transporting mail and parcel post, and the attitude of Congress about it, are absolutely unjust. Since the inauguration of the parcel post and the increase in the weight limit to 50 pounds, the New Haven Company is underpaid at least \$1,000,000 a year by the Government for service performed and facilities furnished.

In condemnation cases, railroads must pay value, and high value, instead of cost, for land needed, and taxes and burdens which railroads pay to the State are not based on cost, but on present value. In the same way, charges for the use of railroad property, or rates, as they are called, should be based on all elements of value and not simply on cost.

The Supreme Court, in discussing the point that the making of rates was a regulation and not a taking of property, said:

“The equal protection of the laws—the spirit of common justice—forbids that one class should, by law, be compelled to suffer loss that others may make gain. If the State were to seek to acquire title to these roads under its power of eminent domain, is there any doubt that constitutional provisions would require the payment to the corporation of just compensation, that compensation being the value of the

property as it stood in the markets of the world and not as prescribed by the legislature? Is it any less a departure from the obligations of justice to seek to take, not the title, but the use for the public benefit at less than its market value?"

Valuation of the Railroads. The Government and the railroads are now engaged in making a valuation of the railroads. The railroads do not object to that work, although the cost will be very great. But in making that valuation *all* elements of value must be considered and the railroads should be protected by Constitutional guarantees just as well as all other property is protected. If this is done, the valuation will, in my judgment, in most cases, prove to be more than the capitalization, and the charge of overcapitalization will be refuted.

Valuations of railroads within their borders have been made under authority in four States, and the valuation was more than the capitalization in three out of these four States, and nearly the same in the fourth State, as follows:

	<i>Valuation</i>	<i>Capitalization</i>
Washington (1905).....	\$194,057,240	\$161,582,000
South Dakota (1908).....	106,494,502	109,444,600
Minnesota (1907).....	360,961,548	300,027,676
Wisconsin (1909).....	296,803,322	225,000,000
Total.....	\$958,316,613	\$796,054,270

Prof. Swain's Report. Under the authority and direction of Massachusetts, a commission composed of the Railroad Commission, the Tax Commissioner, and the Bank Commissioner, made a valuation of the New Haven Company, as of June 30, 1910. Professor Swain, whom you know so well, was placed in charge, and in his report to the Commission placed the excess value of the properties over the par value of all securities issued, at upwards of \$101,000,000, and in this estimate nothing was included for intangible assets, such as franchises, strategic location and business connections, which would add many millions of actual value.

The Worcester, Nashua and Rochester Road, now a part of the Boston and Main System, was valued in 1910 under the direction of the Railroad Commission of Massa-

chusetts and the value exceeded the capitalization by a very large margin. The Federal valuation work on the Boston and Maine is now very well advanced and all data and examinations indicate that the valuation when completed will be largely in excess of the par of the securities of all kinds upon which the railroad is trying to earn a return.

Recent Railroad Earnings. But what are the returns lately? For the year ending June 30, 1914, the New Haven succeeded in paying interest and rentals and had \$268,662.87 available for improvements, betterments and a return upon the \$157,117,900 of stock in the hands of the public. For the same year the Boston and Maine failed to meet its rentals, interest and other fixed charges by \$2,044,742.01, and, of course, had nothing for a dividend on its \$42,655,190.70 of stock.

For the five months, July 1 to November 30 of this fiscal year, the New Haven has succeeded, in spite of a fall in gross earnings of \$1,980,649.56, in having an increase of \$17,450.35 in net income available and will round out the year showing interest and charges earned. The Boston and Maine, with a decrease of \$878,461.61 in gross earnings, succeeded in reducing expenses so that the decrease in net income is only \$32,802.95.

Neither company, however, under present conditions is making gains in net commensurate with the requirements of New England for constant improvements and service and with the needs of the security holders for a return.

What Is Needed. Confidence and credit are vital to any business, and particularly to the railroad. Earnings under honest and efficient management should be enough to bring the necessary confidence and credit and to permit improvements to be made each year out of earnings, and thus keep down new borrowings. They ought to be sufficient also in good times so as to permit the creation of a surplus for use in poor times. Many improvements are needed by the public which produce no new revenue, but really increase expenses, such as better stations and cars, elimination of grade crossings, and electrification, and the railroad own-

ers and managers would be glad to provide all of these things if they had the money. It would seem as if a sound policy for the State and the Nation would be to strengthen the credit of the railroads and not to strain it; so that securities now in the hands of the public will be considered safe and new securities may be sold to make those improvements which will shortly become necessary to carry on the business of the country.

There are a number of signs that the pendulum of regulation, having swung so far in the direction of drastic and almost strangling legislation, has stopped, and it is most earnestly to be hoped that the damage already suffered by the great transportation interests of the country can be repaired before the next uplift in business.

A Living Wage for the Railroads. Mr. Daniels, of the Interstate Commerce Commission, said on July 29, 1914:

“A living wage is as necessary for a railroad as an individual. A carrier without a sufficient return to cover costs and obtain in addition a margin of profit large enough to attract new capital for extensions and improvements cannot permanently render service commensurate with the needs of the public.”

The President of the United States said, on September 10, 1914:

“They (the railroads) are indispensable to our whole economic life, and railway securities are at the very heart of most investments, large and small, public and private, by individuals and institutions. I am confident that there will be active and earnest co-operation in this matter, perhaps the one common interest of our whole industrial life. Undoubtedly, men both in and out of official position will appreciate what is involved and lend their aid heartily wherever it is possible for them to lend it.”

The Rate Increase. On December 16, the Interstate Commerce Commission recognized the seriousness of the situation by granting to the Eastern Railroads an increase of five per cent. on certain rates.

In their decision the Commissioners quoted some remarks from previous decisions which are important:

“In view of a tendency toward a diminishing net operating income as shown by the facts described, we are of opinion that the net operating income of the railroads in Official Classification Territory, taken as a whole, is smaller than is demanded in the interests of both the general public and the railroads, and it is our duty and our purpose to aid so far as we legally may in the solution of the problem as to the course that the carriers may pursue to meet the situation.”

And again they said:

“This country cannot afford to have poor railroads, insufficiently equipped, unsubstantially built and carelessly operated. We need the best of service. Our railroad management should be the most progressive. It should have wide latitude for experiment and it should have such encouragement as would attract the imagination of both the engineer and the investor.”

Some In Ohio, at the last election, Mr. Harding
Straws. was elected United States Senator by
 something over 100,000 plurality on a platform of helping railroads and business and opposing further attacks and restrictive measures for public service corporations.

In Oregon, where numerous legislative experiments have been tried, the wool growers adopted the following resolution:

“RESOLVED, By the Oregon State Wool Growers' Association, in annual session assembled in the City of Pendleton, December 3-4, 1914, that we do hereby appeal to our National and State legislators and officials, and to our own membership and the general public, to adopt an attitude of encouragement towards transportation, public utility, manufacturing and business enterprises, to urge the repeal of legislation which, though exalted in purpose, has proved destructive in effect, and to support legislation that will foster the investment of capital, stimulate industry and increase material prosperity, so there will be

better markets for our products, more profit for the producers and more employment and better wages for labor.”

In Missouri, at the last election, the people by a majority vote of 169,000 repealed the Extra Crew Law, which imposed an unnecessary burden upon the railroads of the State.

Railroads As an academic proposition, it seems to be
Must be conceded that the railroad industry needs
Helped. more help than it can obtain from itself.

The need is great and the time is short within which to prepare for the growth of the country, for can anyone believe that the United States, with 100,000,000 people, with \$10,000,000,000 of new agricultural wealth produced each year, and nearly \$18,000,000,000 in banks and savings institutions, is going to stand still? Of course it is not, and it is going ahead again and people will want coal and ore and iron and steel and lumber and merchandise and manufactured articles moved about the country in quantity greater in the next ten years than ever before. To do it transportation *must* be available, and the machinery for producing it cannot be created overnight, but must be prepared ahead of time. What is true of the United States is true of this beautiful and populous New England. It will grow and develop, and its great railroads should be helped in their earnest efforts to put their houses in order and keep solvent until brighter times come. The New England roads need a number of things, some of which have already been granted in part.

Urgent They need higher rates, both freight and
Needs. passenger, to meet modern conditions of wages, taxes, terminal and other expenses.

They need adequate pay for handling the mails and parcel post, and it is to be hoped that the Congressional delegation from New England will insist upon this.

They need a realization by the public that the railroad can only obtain money by earning, saving or borrowing, and the co-operation of the public in helping them to postpone the spending of money for improvements until such time as the money is available.

They also need the aid of the public in introducing economies, which, at times, mean less frequent and less luxurious service, but which are absolutely necessary if these great railroads are to be preserved intact and do their work for New England as a whole.

They need legislation in the various New England States that will not conflict and that will permit the inauguration and development of some broad financial plan, so that they can give up the present expensive method of borrowing money at high rates of interest for short periods of time. Such legislation will help to restore the credit of the railroads and thus help not only the roads and their security holders, but business generally.

They need the influence of thoughtful, careful men upon all in public life to show them that the time has come when the public servant will serve his country and his constituents best who, while stamping out dishonesty and improper practices in both the Government and business, will realize that government is not for the purpose of crippling and hindering business.

The Public Service Commissions of the various States and the Interstate Commerce Commission have already granted some of the increases asked for.

I am glad to say that the public is realizing that conditions are such that higher rates must be paid, and is showing sympathy with the efforts of the roads to save money and postpone improvements.

**How All
May Help.**

The question of the relation of the Government to the people is perpetual, but if the wonderful educational system of the United States does its work right we ought to do better with the problems in the next twenty-five years than we have in the last. Regulation of the great public service corporations, if it stops progress, is a failure. The power to regulate carries with it the duty to protect. Men like graduates of the Institute and of Harvard ought to use their influence with their representatives in public life and help them, and should not stand aloof, but, as stated by the President in his letter of September 10 to the railroads, "all stand as one to see justice done and all fair assistance rendered and rendered ungrudgingly."